

**Report 12-19  
December 2012**

# **Wisconsin Educational Communications Board**

STATE OF WISCONSIN



Legislative Audit Bureau ■



# **Wisconsin Educational Communications Board**

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State Auditor – Joe Chrisman

### **Audit Prepared by**

Diann Allsen, *Financial Audit Director*

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Rachel Haberkorn

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**STATE OF WISCONSIN**  
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Joe Chrisman  
State Auditor

December 21, 2012

Senator Kathleen Vinehout and  
Representative Samantha Kerkman, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Mr. Gene Purcell, Executive Director  
Educational Communications Board  
3319 West Beltline Highway  
Madison, Wisconsin 53713

Dear Senator Vinehout, Representative Kerkman, and Mr. Purcell:

We have completed a financial audit of the State of Wisconsin Educational Communications Board (ECB) to meet our audit requirements under s. 13.94, Wis. Stats., and as requested by ECB to fulfill the audit requirements under s. 440.42(3), Wis. Stats., and of the Corporation for Public Broadcasting. The Corporation requires audited financial statements of public broadcasting entities to determine future funding levels. Our audit report contains ECB's financial statements and related notes as of and for the years ended June 30, 2012, and June 30, 2011.

ECB, which is an agency of the State of Wisconsin, operates a television network of 5 digital stations and 3 radio networks consisting of 14 FM stations and 1 AM station. The financial activity of the Wisconsin Public Broadcasting Foundation, Inc., which was organized by ECB for the exclusive purpose of raising funds for its television and radio networks, is included as part of ECB's financial statements. ECB reported a total of \$20.6 million in revenue during fiscal year 2011-12, including state support, member contributions, funding from the Corporation for Public Broadcasting, and various other grants.

We were able to issue an unqualified independent auditor's report on ECB's financial statements and related notes as of and for the years ended June 30, 2012, and June 30, 2011. In our report on internal control and compliance, we note that ECB continues to take steps to improve its financial reporting process. However, given the number of errors we identified in its financial statements and notes, we again report a significant deficiency in its financial reporting process.

We appreciate the courtesy and cooperation extended to us by ECB staff during the audit.

Respectfully submitted,

  
Joe Chrisman  
State Auditor

JC/DA/ss





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# Audit Opinion ■

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## ***Independent Auditor's Report on the Financial Statements of the Wisconsin Educational Communications Board***

We have audited the accompanying financial statements of the Wisconsin Educational Communications Board's (ECB's) Operating Fund and the Wisconsin Public Broadcasting Foundation, Inc., as of and for the years ended June 30, 2012, and June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of ECB's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Wisconsin Public Radio Association, Inc., and the Friends of Wisconsin Public Television, Inc., which represent 4.1 percent and 4.6 percent of ECB's total assets as of June 30, 2012, and June 30, 2011, and 41.4 percent and 41.1 percent of ECB's total revenues during fiscal year (FY) 2011-12 and FY 2010-11. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Wisconsin Public Radio Association, Inc., and the Friends of Wisconsin Public Television, Inc., is based upon the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Wisconsin Public Radio Association, Inc., and the Friends of Wisconsin Public Television, Inc., were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*. An

audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements referred to in the first paragraph present only ECB and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2012, and June 30, 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial positions of ECB's Operating Fund and the Wisconsin Public Broadcasting Foundation, Inc., as of June 30, 2012, and June 30, 2011, and the respective changes in their financial positions and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1A, ECB changed the presentation of its financial statements. In prior fiscal years, ECB prepared separate financial statements for the operations of its television and radio networks. Beginning with the fiscal year ended June 30, 2011, ECB is presenting one set of financial statements, with detailed information on the operations of the television and radio networks disclosed in Note 17.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 14, 2012, on our consideration of ECB's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the financial statements of ECB referred to in the first paragraph. The supplementary information included as Management's Discussion and Analysis on pages 7 through 10 is presented for purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures to the information. These procedures consisted of inquiries of management about the methods of preparing the information and comparisons of the information for

consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to do so.

December 14, 2012

LEGISLATIVE AUDIT BUREAU

by   
Diann Allsen  
Audit Director



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# Management's Discussion and Analysis ■

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## *Prepared by Educational Communications Board Management*

The Management's Discussion and Analysis (MD&A) section is prepared by the Educational Communications Board's (ECB's) executive staff and is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in its Statement Number 34. The MD&A provides the reader with general information on the financial activities of ECB and the Wisconsin Public Broadcasting Foundation, Inc. (WPBF).

ECB is an agency of the State of Wisconsin that operates a public television network (Wisconsin Television Network) consisting of 5 digital stations, as well as 3 public radio networks (WERN-FM and its affiliated Music Network stations, WHAD-FM and its affiliated Ideas Network stations, and a network of 24 hour per day classical music HD radio stations) consisting of 14 FM stations and 1 AM station (13 of the FM sites and the AM site are currently broadcasting a digital radio signal in addition to analog). ECB also operates 3 FM translators, 6 TV translators, and a network of 28 weather service broadcast sites. Additionally, ECB holds multiple Educational Broadband Service licenses. WPBF was organized by ECB under s. 39.12 and ch. 181, Wis. Stats., on September 29, 1983, for the exclusive purpose of raising funds for the Wisconsin educational television and radio networks.

Following this section are financial statements and notes pertaining to ECB. The Balance Sheets provide information on the assets and liabilities of ECB, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether ECB's financial position is improving or deteriorating. The Statements of Revenues, Expenses, and Changes in Fund Net Assets and the Statements of Cash Flows provide information on income,

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expenses, and cash activities. The Notes to the Financial Statements provide additional information that is essential to promoting a full understanding of the data provided in the financial statements.

Condensed financial information for ECB as of and for the fiscal years ended June 30, 2012, June 30, 2011, and June 30, 2010, is as follows:

### ECB Condensed Financial Information

|  | June 30, 2012              | Change from<br>Previous Year | June 30, 2011                          | Change from<br>Previous Year | June 30, 2010 <sup>1</sup> |
|--|----------------------------|------------------------------|--|------------------------------|----------------------------|
| Capital Assets<br>(including intangibles)          | \$20,281,521               | (3)%                         | \$20,873,105 <sup>2</sup>              | (7) <sup>2</sup> %           | \$22,519,085 <sup>2</sup>  |
| Other Assets                                       | 16,752,021                 | 4                            | 16,128,766 <sup>2</sup>                | 13 <sup>2</sup>              | 14,217,712 <sup>2</sup>    |
| <b>Total Assets</b>                                | <b><u>37,033,542</u></b>   |                              | <b><u>37,001,871<sup>2</sup></u></b>   |                              | <b><u>36,736,797</u></b>   |
| Current Liabilities                                | 2,131,881                  | 11                           | 1,923,752                              | (9)                          | 2,113,830                  |
| Noncurrent Liabilities                             | 687,629                    | (8)                          | 747,478                                | 94                           | 386,268                    |
| <b>Total Liabilities</b>                           | <b><u>2,819,510</u></b>    |                              | <b><u>2,671,230</u></b>                |                              | <b><u>2,500,098</u></b>    |
| Invested in Capital Assets,<br>Net of Related Debt | 20,192,066                 | (3)                          | 20,774,679 <sup>2</sup>                | (7) <sup>2</sup>             | 22,412,650 <sup>2</sup>    |
| Restricted by Grants or Donors                     | 481,517                    | 24                           | 387,283                                | (7)                          | 416,078                    |
| Unrestricted                                       | 13,540,449                 | 3                            | 13,168,679 <sup>2</sup>                | 15 <sup>2</sup>              | 11,407,971 <sup>2</sup>    |
| <b>Total Net Assets</b>                            | <b><u>\$34,214,032</u></b> |                              | <b><u>\$34,330,641<sup>2</sup></u></b> |                              | <b><u>\$34,236,699</u></b> |

|  | FY 2011-12                 | Change from<br>Previous Year | FY 2010-11                          | Change from<br>Previous Year | FY 2009-10 <sup>1</sup>  |
|--|----------------------------|------------------------------|-------------------------------------|------------------------------|--------------------------|
| Operating Revenues                     | \$13,554,768               | 5%                           | \$12,886,184                        | 5%                           | \$12,294,374             |
| Operating Expenses                     | 19,692,670                 | 3                            | 19,172,249 <sup>2</sup>             | (3)                          | 19,803,020               |
| <b>Net Operating Loss</b>              | <b>(6,137,902)</b>         |                              | <b>(6,286,065)<sup>2</sup></b>      |                              | <b>(7,508,646)</b>       |
| Nonoperating Revenues<br>(Expenses)    | 4,598,670                  | (21)                         | 5,799,629                           | 14                           | 5,070,396                |
| Capital Contributions and<br>Transfers | 1,422,623                  | 145                          | 580,378                             | (78)                         | 2,677,578                |
| <b>Changes in Net Assets</b>           | <b><u>\$ (116,609)</u></b> |                              | <b><u>\$ 93,942<sup>2</sup></u></b> |                              | <b><u>\$ 239,328</u></b> |

<sup>1</sup> Prior to the fiscal year ended June 30, 2011, separate financial statements were issued for ECB's television and radio networks. For comparison purposes, the information from the separate financial reports has been combined as of and for the fiscal year ended June 30, 2010.

<sup>2</sup> Amounts restated from prior year's report to reflect reclassifications and adjustments.

State of Wisconsin General Fund revenues, which are a significant source of funding for ECB's education services, safety services, delivery operations, and the associated administration, are reported as nonoperating revenues under governmental accounting standards. The result of this accounting treatment is a reported net operating loss. This loss is offset by nonoperating revenues, primarily State of Wisconsin General Fund revenues, and capital contributions.

ECB's capital assets of \$20.3 million as of June 30, 2012, are presented at historical cost less depreciation. Capital assets, which include intangible assets, decreased 3 percent in FY 2011-12, and 7 percent in FY 2010-11, primarily because capital asset additions were outpaced by depreciation and deletions during each year. Although ECB had more capital projects during FY 2011-12 than it did in FY 2010-11, both years had fewer active capital projects compared to FY 2009-10.

Other assets increased 4 percent in FY 2011-12 primarily because of a higher cash balance at year end associated with the timing of liability payments, and also increased 13 percent in FY 2010-11 because of increased investment balances resulting from increased bequest contributions and improved financial market conditions during the fiscal year.

The 11 percent increase in FY 2011-12 and 9 percent decrease in FY 2010-11 of current liabilities occurred because of the timing of vendor invoices. Noncurrent liabilities increased by 94 percent in FY 2010-11 primarily because ECB had an unearned revenue liability resulting from a prepaid fee received that will be earned over a five-year period for leasing out excess capacity on Educational Broadband Service licenses it holds. Subsequently, noncurrent liabilities decreased by 8 percent in FY 2011-12 because a portion of the unearned revenues was recognized during the year.

Operating revenues increased by 5 percent in FY 2011-12 because of increased Educational Broadband Service lease revenue and 5 percent in FY 2010-11 because of an increase in bequest contributions from individuals. Operating expenses increased 3 percent in FY 2011-12 because of the increased number of productions, and it decreased by 3 percent in FY 2010-11 due to less maintenance and repair expenses associated with fewer active capital projects during the fiscal year and fewer fundraising and membership development expenses.

Nonoperating revenues and expenses consist of investment earnings and losses, both realized and unrealized; gains or losses on disposal of assets; and financial support from the State of Wisconsin General Fund. Nonoperating revenues and expenses overall decreased by 21 percent in FY 2011-12 and increased by 14 percent in FY 2010-11 because of changes in investment earnings year to year. The decrease for FY 2011-12 is also attributed to decreased support from the State of Wisconsin General Fund.

Capital contributions increased 145 percent in FY 2011-12 and decreased 78 percent in FY 2010-11 because ECB received fewer contributions from the State Capital Improvement Fund since fewer capital projects were active in FY 2010-11. The number of capital projects active in FY 2011-12 increased over FY 2010-11, but did not return to the level of FY 2009-10.

The net results of all operations for the year are summarized in the line titled Changes in Net Assets.

This financial report is designed to provide a general overview of ECB's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to *gene.purcell@ecb.org* or to ECB in care of the Executive Director, 3319 West Beltline Highway, Madison, WI 53713-4296.

General information relating to the Educational Communications Board can be found at its website, *www.ecb.org*.

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## **Financial Statements ■**

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## Balance Sheet

### June 30, 2012

|   | Operating<br>Fund           | Wisconsin<br>Public Broadcasting<br>Foundation, Inc. | Total<br>June 30, 2012      |
|---|-----------------------------|--|-----------------------------|
| <b>ASSETS</b>   |                             |  |                             |
| Current Assets:   |                             |  |                             |
| Cash and Cash Equivalents (Note 2)                          | \$ 1,695,491                | \$ 7,285,122   | \$ 8,980,613                |
| Investments (Note 2)  | 0                           | 167,699  | 167,699                     |
| Pledges Receivable  | 0                           | 351,373  | 351,373                     |
| Receivable—Due from Affiliates                              | 99,430                      | 232,046  | 331,476                     |
| Other Receivables   | 324,025                     | 42,686   | 366,711                     |
| Prepaid Expenses  | 198,698                     | 64,516   | 263,214                     |
| Inventory   | 11,773                      | 6,023  | 17,796                      |
| Intangible Assets, Net of Accumulated Amortization (Note 5) | 268,507                     | 0  | 268,507                     |
| Total Current Assets  | <u>2,597,924</u>            | <u>8,149,465</u>                                     | <u>10,747,389</u>           |
| Noncurrent Assets:  |                             |  |                             |
| Investments (Note 2)  | 0                           | 6,273,139  | 6,273,139                   |
| Capital Assets: (Notes 4 and 5)                             |                             |  |                             |
| Land  | 163,207                     | 0  | 163,207                     |
| Buildings and Improvements, Net of Accumulated Depreciation | 5,730,090                   | 0  | 5,730,090                   |
| Equipment, Net of Accumulated Depreciation                  | 13,566,468                  | 0  | 13,566,468                  |
| Intangible Assets, Net of Accumulated Amortization          | 553,249                     | 0  | 553,249                     |
| Total Noncurrent Assets                                     | <u>20,013,014</u>           | <u>6,273,139</u>                                     | <u>26,286,153</u>           |
| <b>TOTAL ASSETS</b>   | <b><u>\$ 22,610,938</u></b> | <b><u>\$ 14,422,604</u></b>                          | <b><u>\$ 37,033,542</u></b> |
| <b>LIABILITIES AND NET ASSETS</b>                           |                             |  |                             |
| Current Liabilities:  |                             |  |                             |
| Accounts Payable and Accrued Expenses                       | \$ 913,277                  | \$ 93,305  | \$ 1,006,582                |
| Accrued Liabilities Due to Affiliates                       | 593,244                     | 296,882  | 890,126                     |
| Bonds Payable (Note 10)                                     | 9,191                       | 0  | 9,191                       |
| Unearned Revenue (Note 9)                                   | 95,600                      | 130,382  | 225,982                     |
| Total Current Liabilities                                   | <u>1,611,312</u>            | <u>520,569</u>                                       | <u>2,131,881</u>            |
| Noncurrent Liabilities:                                     |                             |  |                             |
| Compensated Absences Payable (Note 6)                       | 336,498                     | 0  | 336,498                     |
| Bonds Payable (Notes 6 and 10)                              | 80,264                      | 0  | 80,264                      |
| Unearned Revenue (Notes 6 and 9)                            | 270,867                     | 0  | 270,867                     |
| Total Noncurrent Liabilities                                | <u>687,629</u>              | <u>0</u>   | <u>687,629</u>              |
| Net Assets:   |                             |  |                             |
| Invested in Capital Assets, Net of Related Debt Paid by ECB | 20,192,066                  | 0  | 20,192,066                  |
| Restricted by Grants or Donors                              | 149,713                     | 174,909  | 324,622                     |
| Restricted—Nonexpendable (Note 11)                          | 0                           | 156,895  | 156,895                     |
| Unrestricted  | (29,782)                    | 13,570,231   | 13,540,449                  |
| <b>Total Net Assets</b>                                     | <b><u>20,311,997</u></b>    | <b><u>13,902,035</u></b>                             | <b><u>34,214,032</u></b>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                     | <b><u>\$ 22,610,938</u></b> | <b><u>\$ 14,422,604</u></b>                          | <b><u>\$ 37,033,542</u></b> |

The accompanying notes are an integral part of this statement.

## Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Year Ended June 30, 2012

|  | Operating<br>Fund    | Wisconsin<br>Public Broadcasting<br>Foundation, Inc. | Total<br>FY 2011-12  |
|--|----------------------|--|----------------------|
| <b>OPERATING REVENUES</b>                                |                      |  |                      |
| Contributed Support                                      | \$ 0                 | \$ 6,678,911   | \$ 6,678,911         |
| Corporation for Public Broadcasting Grants               | 0                    | 1,872,479  | 1,872,479            |
| Underwriting Grants                                      | 0                    | 875,633  | 875,633              |
| Contributed In-Kind Support (Note 13)                    | 564,576              | 55,565   | 620,141              |
| Major Gifts  | 0                    | 1,182,575  | 1,182,575            |
| Other Income   | 1,604,912            | 720,117  | 2,325,029            |
| <b>Total Operating Revenues</b>                          | <b>2,169,488</b>     | <b>11,385,280</b>                                    | <b>13,554,768</b>    |
| <b>OPERATING EXPENSES</b>                                |                      |  |                      |
| Program Services:  |                      |  |                      |
| Programming and Production                               | 8,011,631            | 539,174  | 8,550,805            |
| Broadcasting   | 6,948,082            | 9,988  | 6,958,070            |
| Program Information                                      | 124,614              | 160,300  | 284,914              |
| Total Program Services                                   | 15,084,327           | 709,462  | 15,793,789           |
| Support Services:  |                      |  |                      |
| Management and General                                   | 1,504,647            | 208,576  | 1,713,223            |
| Fundraising and Membership Development                   | 86,543               | 1,914,795  | 2,001,338            |
| Underwriting   | 177,103              | 7,217  | 184,320              |
| Total Support Services                                   | 1,768,293            | 2,130,588  | 3,898,881            |
| <b>Total Operating Expenses</b>                          | <b>16,852,620</b>    | <b>2,840,050</b>                                     | <b>19,692,670</b>    |
| <b>OPERATING INCOME (LOSS)</b>                           | <b>(14,683,132)</b>  | <b>8,545,230</b>                                     | <b>(6,137,902)</b>   |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                  |                      |  |                      |
| State General Fund Revenue for Operations                | 5,552,614            | 0  | 5,552,614            |
| Loss on Disposal of Capital Assets                       | (53,290)             | 0  | (53,290)             |
| Capital Debt Interest Expense (Note 10)                  | (885,064)            | 0  | (885,064)            |
| State Insurance Funds                                    | 2,829                | 0  | 2,829                |
| Investment Income  | 0                    | (49,539)   | (49,539)             |
| Settlement Proceeds (Note 18)                            | 31,120               | 0  | 31,120               |
| <b>Total Nonoperating Revenues (Expenses)</b>            | <b>4,648,209</b>     | <b>(49,539)</b>                                      | <b>4,598,670</b>     |
| Income (Loss) Before Capital Contributions and Transfers | (10,034,923)         | 8,495,691  | (1,539,232)          |
| <b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>               |                      |  |                      |
| Capital Contributions (Note 12)                          | 1,536,323            | 0  | 1,536,323            |
| Transfer to State General Fund (Note 3)                  | (113,700)            | 0  | (113,700)            |
| Interfund Transfers (Note 3)                             | 8,171,092            | (8,171,092)  | 0                    |
| <b>CHANGE IN NET ASSETS</b>                              | <b>(441,208)</b>     | <b>324,599</b>                                       | <b>(116,609)</b>     |
| Total Net Assets—Beginning of the Year                   | 20,753,205           | 13,577,436   | 34,330,641           |
| Total Net Assets—End of the Year                         | <u>\$ 20,311,997</u> | <u>\$ 13,902,035</u>                                 | <u>\$ 34,214,032</u> |

The accompanying notes are an integral part of this statement.

## Statement of Cash Flows for the Year Ended June 30, 2012

|   | Operating<br>Fund   | Wisconsin<br>Public Broadcasting<br>Foundation, Inc. | Total<br>FY 2011-12 |
|---|---------------------|--|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                 |                     |  |                     |
| Contributed Support   | \$ 0                | \$ 8,708,433   | \$ 8,708,433        |
| Receipts from Other Income  | 1,476,497           | 2,645,228  | 4,121,725           |
| Payments to Suppliers   | (9,130,463)         | (2,918,654)  | (12,049,117)        |
| Payments to Employees   | (4,593,435)         | 0  | (4,593,435)         |
| <b>Net Cash Provided (Used) by Operating Activities</b>                     | <b>(12,247,401)</b> | <b>8,435,007</b>                                     | <b>(3,812,394)</b>  |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>                      |                     |  |                     |
| Receipts from State Government  | 5,483,822           | 0  | 5,483,822           |
| Transfer to State General Fund  | (113,700)           | 0  | (113,700)           |
| Settlement Proceeds   | 31,120              | 0  | 31,120              |
| Interfund Transfers   | 8,191,092           | (8,191,092)  | 0                   |
| <b>Net Cash Provided (Used) for Noncapital Financing Activities</b>         | <b>13,592,334</b>   | <b>(8,191,092)</b>                                   | <b>5,401,242</b>    |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>             |                     |  |                     |
| Capital Contributions   | 1,466,837           | 0  | 1,466,837           |
| Purchases of Capital Assets   | (1,642,585)         | 0  | (1,642,585)         |
| Principal Paid on Capital Debt  | (8,971)             | 0  | (8,971)             |
| Interest Paid on Capital Debt   | (889,647)           | 0  | (889,647)           |
| <b>Net Cash Provided (Used) by Capital and Related Financing Activities</b> | <b>(1,074,366)</b>  | <b>0</b>   | <b>(1,074,366)</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                 |                     |  |                     |
| Net Purchases, Sales, and Maturities of Investments                         | 0                   | (410,668)  | (410,668)           |
| Interest and Dividends  | 0                   | 180,026  | 180,026             |
| <b>Net Cash Used for Investing Activities</b>                               | <b>0</b>            | <b>(230,642)</b>                                     | <b>(230,642)</b>    |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                 | <b>270,567</b>      | <b>13,273</b>  | <b>283,840</b>      |
| Balances—Beginning of the Year  | 1,424,924           | 7,271,849  | 8,696,773           |
| Balances—End of the Year  | <u>\$ 1,695,491</u> | <u>\$ 7,285,122</u>                                  | <u>\$ 8,980,613</u> |

The accompanying notes are an integral part of this statement.

|   | Operating<br>Fund             | Wisconsin<br>Public Broadcasting<br>Foundation, Inc. | Total<br>FY 2011-12          |
|---|-------------------------------|--|------------------------------|
| <b>RECONCILIATION OF OPERATING INCOME (LOSS)<br/>TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b> |                               |  |                              |
| Operating Income (Loss)   | \$ (14,683,132)               | \$ 8,545,230   | \$ (6,137,902)               |
| Adjustments to Reconcile Operating Income (Loss) to Net<br>Cash Provided by Operating Activities: |                               |  |                              |
| Depreciation and Amortization Expense   | 2,179,332                     | 1,547  | 2,180,879                    |
| Change in Assets and Liabilities:   |                               |  |                              |
| Receivables, Net  | (32,815)                      | 20,418   | (12,397)                     |
| Inventories   | 3,925                         | 2,801  | 6,726                        |
| Prepaid Expense   | (15,926)                      | 4,393  | (11,533)                     |
| Unearned Revenue  | (95,600)                      | 3,529  | (92,071)                     |
| Accounts and Other Payables   | 396,815                       | (142,911)  | 253,904                      |
| <b>Net Cash Provided (Used) by Operating Activities</b>   | <b><u>\$ (12,247,401)</u></b> | <b><u>\$ 8,435,007</u></b>                           | <b><u>\$ (3,812,394)</u></b> |

Noncash Activities:

Contributed in-kind support totaled \$620,141 and non-cash capital contributions totaled \$58,818.

The net decrease in the fair value of investments was \$266,237.

ECB disposed of miscellaneous equipment as scrap. The undepreciated cost of the disposed equipment was reported as a loss of \$53,290.

## Balance Sheet

### June 30, 2011 (Restated)

|   | Operating<br>Fund           | Wisconsin<br>Public Broadcasting<br>Foundation, Inc. | Total<br>June 30, 2011      |
|---|-----------------------------|--|-----------------------------|
| <b>ASSETS</b>   |                             |  |                             |
| Current Assets:   |                             |  |                             |
| Cash and Cash Equivalents (Note 2)                          | \$ 1,424,924                | \$ 7,271,849   | \$ 8,696,773                |
| Investments (Note 2)  | 0                           | 64,991   | 64,991                      |
| Pledges Receivable  | 0                           | 319,158  | 319,158                     |
| Interfund Receivable (Payable)                              | 20,000                      | (20,000)   | 0                           |
| Receivable—Due from Affiliates                              | 106,459                     | 295,434  | 401,893                     |
| Other Receivables   | 143,074                     | 31,931   | 175,005                     |
| Prepaid Expenses  | 182,772                     | 68,909   | 251,681                     |
| Inventory   | 15,698                      | 8,824  | 24,522                      |
| Intangible Assets, Net of Accumulated Amortization (Note 5) | 244,861                     | 0  | 244,861                     |
| Total Current Assets  | <u>2,137,788</u>            | <u>8,041,096</u>                                     | <u>10,178,884</u>           |
| Noncurrent Assets:  |                             |  |                             |
| Investments (Note 2)  | 0                           | 6,194,743  | 6,194,743                   |
| Capital Assets: (Notes 4 and 5)                             |                             |  |                             |
| Land  | 163,207                     | 0  | 163,207                     |
| Buildings and Improvements, Net of Accumulated Depreciation | 5,983,153                   | 0  | 5,983,153                   |
| Equipment, Net of Accumulated Depreciation                  | 13,824,023                  | 1,547  | 13,825,570                  |
| Intangible Assets, Net of Accumulated Amortization          | 656,314                     | 0  | 656,314                     |
| Total Noncurrent Assets                                     | <u>20,626,697</u>           | <u>6,196,290</u>                                     | <u>26,822,987</u>           |
| <b>TOTAL ASSETS</b>   | <b><u>\$ 22,764,485</u></b> | <b><u>\$ 14,237,386</u></b>                          | <b><u>\$ 37,001,871</u></b> |
| <b>LIABILITIES AND NET ASSETS</b>                           |                             |  |                             |
| Current Liabilities:  |                             |  |                             |
| Accounts Payable and Accrued Expenses                       | \$ 615,521                  | \$ 300,408   | \$ 915,929                  |
| Accrued Liabilities Due to Affiliates                       | 543,710                     | 232,689  | 776,399                     |
| Bonds Payable (Note 10)                                     | 8,971                       | 0  | 8,971                       |
| Unearned Revenue (Note 9)                                   | 95,600                      | 126,853  | 222,453                     |
| Total Current Liabilities                                   | <u>1,263,802</u>            | <u>659,950</u>                                       | <u>1,923,752</u>            |
| Noncurrent Liabilities:                                     |                             |  |                             |
| Compensated Absences Payable (Note 6)                       | 291,556                     | 0  | 291,556                     |
| Bonds Payable (Notes 6 and 10)                              | 89,455                      | 0  | 89,455                      |
| Unearned Revenue (Notes 6 and 9)                            | 366,467                     | 0  | 366,467                     |
| Total Noncurrent Liabilities                                | <u>747,478</u>              | <u>0</u>   | <u>747,478</u>              |
| Net Assets:   |                             |  |                             |
| Invested in Capital Assets, Net of Related Debt Paid by ECB | 20,773,132                  | 1,547  | 20,774,679                  |
| Restricted by Grants or Donors                              | 70,579                      | 159,809  | 230,388                     |
| Restricted—Nonexpendable (Note 11)                          | 0                           | 156,895  | 156,895                     |
| Unrestricted  | (90,506)                    | 13,259,185   | 13,168,679                  |
| <b>Total Net Assets</b>                                     | <b><u>20,753,205</u></b>    | <b><u>13,577,436</u></b>                             | <b><u>34,330,641</u></b>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                     | <b><u>\$ 22,764,485</u></b> | <b><u>\$ 14,237,386</u></b>                          | <b><u>\$ 37,001,871</u></b> |

The accompanying notes are an integral part of this statement.

## Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Year Ended June 30, 2011 (Restated)

|  | Operating<br>Fund    | Wisconsin<br>Public Broadcasting<br>Foundation, Inc. | Total<br>FY 2010-11  |
|--|----------------------|--|----------------------|
| <b>OPERATING REVENUES</b>                                |                      |  |                      |
| Contributed Support                                      | \$ 0                 | \$ 6,696,512   | \$ 6,696,512         |
| Corporation for Public Broadcasting Grants               | 44,134               | 1,816,496  | 1,860,630            |
| Underwriting Grants                                      | 0                    | 903,558  | 903,558              |
| Contributed In-Kind Support (Note 13)                    | 478,549              | 0  | 478,549              |
| Major Gifts  | 0                    | 1,117,497  | 1,117,497            |
| Other Income   | 1,231,153            | 598,285  | 1,829,438            |
| <b>Total Operating Revenues</b>                          | <b>1,753,836</b>     | <b>11,132,348</b>                                    | <b>12,886,184</b>    |
| <b>OPERATING EXPENSES</b>                                |                      |  |                      |
| Program Services:  |                      |  |                      |
| Programming and Production                               | 7,534,597            | 593,014  | 8,127,611            |
| Broadcasting   | 7,085,289            | 46,540   | 7,131,829            |
| Program Information                                      | 3,069                | 123,240  | 126,309              |
| Total Program Services                                   | <u>14,622,955</u>    | <u>762,794</u>                                       | <u>15,385,749</u>    |
| Support Services:  |                      |  |                      |
| Management and General                                   | 1,541,945            | 185,369  | 1,727,314            |
| Fundraising and Membership Development                   | 78,492               | 1,796,960  | 1,875,452            |
| Underwriting   | 170,870              | 12,864   | 183,734              |
| Total Support Services                                   | <u>1,791,307</u>     | <u>1,995,193</u>                                     | <u>3,786,500</u>     |
| <b>Total Operating Expenses</b>                          | <b>16,414,262</b>    | <b>2,757,987</b>                                     | <b>19,172,249</b>    |
| <b>OPERATING INCOME (LOSS)</b>                           | <b>(14,660,426)</b>  | <b>8,374,361</b>                                     | <b>(6,286,065)</b>   |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                  |                      |  |                      |
| State General Fund Revenue for Operations                | 5,919,961            | 0  | 5,919,961            |
| Loss on Disposal of Capital Assets                       | (141,106)            | 0  | (141,106)            |
| Capital Debt Interest Expense (Note 10)                  | (1,100,551)          | 0  | (1,100,551)          |
| State Insurance Funds                                    | 3,859                | 0  | 3,859                |
| Investment Income  | 0                    | 1,075,265  | 1,075,265            |
| Settlement Proceeds (Note 18)                            | 42,201               | 0  | 42,201               |
| <b>Total Nonoperating Revenues (Expenses)</b>            | <b>4,724,364</b>     | <b>1,075,265</b>                                     | <b>5,799,629</b>     |
| Income (Loss) Before Capital Contributions and Transfers | (9,936,062)          | 9,449,626  | (486,436)            |
| <b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>               |                      |  |                      |
| Capital Contributions (Note 12)                          | 580,378              | 0  | 580,378              |
| Interfund Transfers (Note 3)                             | 7,463,455            | (7,463,455)  | 0                    |
| <b>CHANGE IN NET ASSETS</b>                              | <b>(1,892,229)</b>   | <b>1,986,171</b>                                     | <b>93,942</b>        |
| Total Net Assets—Beginning of the Year                   | 22,645,434           | 11,591,265   | 34,236,699           |
| Total Net Assets—End of the Year                         | <u>\$ 20,753,205</u> | <u>\$ 13,577,436</u>                                 | <u>\$ 34,330,641</u> |

The accompanying notes are an integral part of this statement.

## Statement of Cash Flows for the Year Ended June 30, 2011 (Restated)

|   | Operating<br>Fund   | Wisconsin<br>Public Broadcasting<br>Foundation, Inc. | Total<br>FY 2010-11 |
|---|---------------------|--|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                 |                     |  |                     |
| Contributed Support   | \$ 0                | \$ 8,674,913   | \$ 8,674,913        |
| Receipts from Other Income  | 1,779,751           | 2,295,738  | 4,075,489           |
| Payments to Suppliers   | (9,361,188)         | (2,942,725)  | (12,303,913)        |
| Payments to Employees   | (4,626,768)         | 0  | (4,626,768)         |
| <b>Net Cash Provided (Used) by Operating Activities</b>                     | <b>(12,208,205)</b> | <b>8,027,926</b>                                     | <b>(4,180,279)</b>  |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>                      |                     |  |                     |
| Receipts from State Government  | 6,124,257           | 0  | 6,124,257           |
| Settlement Proceeds   | 42,201              | 0  | 42,201              |
| Interfund Transfers   | 7,443,455           | (7,443,455)  | 0                   |
| <b>Net Cash Provided (Used) for Noncapital Financing Activities</b>         | <b>13,609,913</b>   | <b>(7,443,455)</b>                                   | <b>6,166,458</b>    |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>             |                     |  |                     |
| Capital Contributions   | 580,378             | 0  | 580,378             |
| Purchases of Capital Assets   | (736,266)           | 0  | (736,266)           |
| Principal Paid on Capital Debt  | (8,009)             | 0  | (8,009)             |
| Interest Paid on Capital Debt   | (940,575)           | 0  | (940,575)           |
| <b>Net Cash Provided (Used) by Capital and Related Financing Activities</b> | <b>(1,104,472)</b>  | <b>0</b>   | <b>(1,104,472)</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                 |                     |  |                     |
| Net Purchases, Sales, and Maturities of Investments                         | 0                   | 677,005  | 677,005             |
| Interest and Dividends  | 0                   | 180,281  | 180,281             |
| <b>Net Cash Used for Investing Activities</b>                               | <b>0</b>            | <b>857,286</b>                                       | <b>857,286</b>      |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                 | <b>297,236</b>      | <b>1,441,757</b>                                     | <b>1,738,993</b>    |
| Balances—Beginning of the Year  | 1,127,688           | 5,830,092  | 6,957,780           |
| Balances—End of the Year  | <u>\$ 1,424,924</u> | <u>\$ 7,271,849</u>                                  | <u>\$ 8,696,773</u> |

The accompanying notes are an integral part of this statement.



|   | Operating<br>Fund             | Wisconsin<br>Public Broadcasting<br>Foundation, Inc. | Total<br>FY 2010-11          |
|---|-------------------------------|--|------------------------------|
| <b>RECONCILIATION OF OPERATING INCOME (LOSS)<br/>TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b> |                               |  |                              |
| Operating Income (Loss)   | \$ (14,660,426)               | \$ 8,374,361   | \$ (6,286,065)               |
| Adjustments to Reconcile Operating Income (Loss) to Net<br>Cash Provided by Operating Activities: |                               |  |                              |
| Depreciation and Amortization Expense   | 2,231,859                     | 9,280  | 2,241,139                    |
| Change in Assets and Liabilities:   |                               |  |                              |
| Receivables, Net  | 42,397                        | (185,619)  | (143,222)                    |
| Inventories   | 3,925                         | (2,027)  | 1,898                        |
| Prepaid Expense   | 2,519                         | (15,714)   | (13,195)                     |
| Unearned Revenue  | 462,067                       | 23,922   | 485,989                      |
| Accounts and Other Payables   | (290,546)                     | (176,277)  | (466,823)                    |
| <b>Net Cash Provided (Used) by Operating Activities</b>   | <b><u>\$ (12,208,205)</u></b> | <b><u>\$ 8,027,926</u></b>                           | <b><u>\$ (4,180,279)</u></b> |

Noncash Activities:

Contributed in-kind support totaled \$478,549.

The net increase in the fair value of investments was \$769,771.

ECB disposed of miscellaneous equipment as scrap. The undepreciated cost of the disposed equipment was reported as a loss of \$141,106.



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# Notes to the Financial Statements ■

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Organization

The Educational Communications Board (ECB) is an agency of the State of Wisconsin that operates a public television network (Wisconsin Television Network) consisting of 5 digital stations, as well as 3 public radio networks (WERN-FM and its affiliated Music Network stations, WHAD-FM and its affiliated Ideas Network stations, and a network of 24 hour per day classical music HD radio stations) consisting of 14 FM stations and 1 AM station (13 of the FM sites and the AM site are currently broadcasting a digital radio signal in addition to analog). ECB also operates 3 FM translators, 6 TV translators, and a network of 28 weather service broadcast sites. Additionally, ECB holds multiple Educational Broadband Service licenses.

The Wisconsin Public Broadcasting Foundation, Inc. (WPBF) is a statutorily defined nonprofit corporation (s. 39.12, Wis. Stats.) wholly owned by ECB that solicits funds in the name of, and with the express approval of, ECB and provides financial support to ECB. WPBF is managed by a statutorily defined five-member board of trustees consisting of the Executive Director of ECB and four members of the ECB Board. Because the State has fiscal accountability for and can influence WPBF operations through legislation, WPBF is considered a blended component unit of the State of Wisconsin. WPBF's financial statements are presented as a separate fund in ECB's financial statements.

ECB's allocated shares of the assets, liabilities, revenues, and expenses of the Friends of Wisconsin Public Television, Inc., and the Wisconsin Public Radio Association, Inc., (WPRA) are included in the WPBF fund. Friends is a non-profit corporation that receives contributed funds for Wisconsin Public Television and provides support to the ECB television network and to WHA-TV, a University of Wisconsin (UW) Board of Regents licensed station. WPRA is a non-profit corporation that receives contributed funds for Wisconsin Public Radio and provides support to the ECB radio networks and to UW Board of Regents licensed radio stations affiliated with Wisconsin Public Radio. See Notes 16B and 16C for further information regarding Friends and WPRA.

Beginning in fiscal year (FY) 2010-11, ECB presented one set of financial statements, with detailed information on the operations of the television and radio networks disclosed in Note 17. In the past, ECB prepared separate financial statements for the operations of its television and radio networks.

#### **B. Basis of Presentation**

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). ECB has not applied Financial Accounting Standards Board pronouncements issued after November 30, 1989. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Revenues from government-mandated or voluntary nonexchange transactions, such as contributions and grants, are recognized when all applicable eligibility requirements are met. Eligibility requirements are established by the provider of the funds and may stipulate the qualifying characteristics of recipients, time requirements, allowable costs, and other contingencies. Restrictions that specify the purpose for which resources are required to be used are not considered eligibility requirements and do not affect when a nonexchange revenue is recognized.

Contributions, gifts, and grants that do not have eligibility requirements are reported as revenue when ECB is entitled to the funds. Revenue is recognized for pledged Friends or WPRA contributions that are expected to be collected within one year at their net realizable value. Contributions, gifts, and grants with eligibility requirements, such as expenditure-driven grants, are recognized when the eligibility requirements are met. Noncash contributions and donated services are recognized as revenues in the period of receipt.

Operating revenues and expenses are directly related to programming, production, development, and delivery of telecommunications services. Nonoperating revenues and expenses, such as investment income, are indirectly associated with programming, production, development, and delivery of telecommunications services. Certain significant revenue streams, such as State of Wisconsin General Fund revenue, are reported as nonoperating revenue, as defined by GASB Statement Number 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*.

Expenses are categorized in functional categories. Expenses that relate to more than one category are allocated to their respective categories, using estimates if necessary. When an expense is incurred for purposes in which both restricted and unrestricted net assets are available, restricted resources are applied first.

**C. Accounting Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**D. Cash and Cash Equivalents**

Cash and cash equivalents in ECB’s Operating Fund include cash balances deposited with the State and shares in the State Investment Fund, a short-term investment pool of state and local funds. Cash and cash equivalents in the WPBF fund include cash deposits with financial institutions and ECB’s share of Friends and WPRA cash and cash equivalents.

**E. Valuation of Investments**

Investments are carried at fair value based on quoted market prices. State Investment Fund shares are valued at fair value.

**F. Property and Equipment**

Buildings and improvements, equipment, and land classified as permanent property are recorded at cost or, for donated property, at the estimated fair value at the date of receipt. Assets are capitalized if their acquisition value is in excess of \$5,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from 6 years for computer equipment to 20 years for buildings and towers. Land is not depreciated. Expenses for repairs and maintenance are charged to operating expenses as incurred.

**G. Intangible Assets**

Intangible assets include costs incurred for program rights. Costs associated with program rights that are amortized within one year of the fiscal year-end are classified as current intangible assets. Costs associated with program rights amortized more than one year beyond fiscal year-end are classified as noncurrent. As program rights expire and the rights are amortized, the costs incurred will be expensed and included in operating expenses. ECB's rights to use two apertures on a tower operated by another state agency are also included in intangible assets and will be amortized over the life of the tower once construction of the tower is complete.

**H. Compensated Absences for Employees**

Unused earned compensated absences, other than accumulated sick leave, are accrued with a resulting liability. The liability and the expense for compensated absences are based on current rates of pay. The related employer's share of social security taxes, Medicare taxes, and contributions to the Wisconsin Retirement System is also accrued with a resulting liability. The compensated absences liability is classified as either a current or a noncurrent liability based upon an estimate determined by management. The noncurrent liability portion of the compensated absences liability generally is not paid out until the employee's retirement.

**I. Restricted Net Assets**

Restricted net assets are reported when constraints placed on net assets are externally imposed, such as by donors or grantors. ECB's restricted assets include program or purpose restrictions placed by donors on contributed support or gifts. Unrestricted net assets may be used at ECB's discretion.

**2. DEPOSITS AND INVESTMENTS**

Cash balances in ECB's Operating Fund are deposited with the State and invested in the State Investment Fund, which is a short-term investment pool of state and local funds managed by the State of Wisconsin Investment Board, with oversight by its Board of Trustees and in accordance with Wisconsin Statutes. The State Investment Fund is not registered with the Securities and Exchange Commission.

The types of securities in which the State Investment Fund may invest are enumerated in ss. 25.17(3)(b), (ba), (bd), and (dg), Wis. Stats., and include direct obligations of the United States or its agencies, corporations wholly owned by the United States or chartered by an act of Congress, securities guaranteed by the United States, unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada,

certificates of deposit issued by banks in the United States and solvent financial institutions in Wisconsin, and bankers acceptances. The Investment Board's trustees may specifically approve other prudent investments.

WPBF manages its cash and investment activities separately from the cash and investment activities of the State Investment Fund. WPBF cash balances are held in demand deposit accounts at one financial institution. WPBF investments include publicly traded stocks, equity mutual funds, fixed-income mutual funds, and money market holdings and are managed by private trust companies. Friends cash balances are held in deposit and money market accounts at multiple financial institutions. Friends investments include equity mutual funds and fixed-income mutual funds. WPRA cash balances include deposits, certificates of deposit, and money market accounts at one financial institution. WPRA investments include equity mutual funds and fixed-income mutual funds.

ECB's deposits and investments referred to below include State Investment Fund shares reflected in the ECB Operating Fund's cash and cash equivalents balance, deposits and investments held by WPBF, and WPBF's allocated share of deposits and investments held by Friends and WPRA.

As of June 30, 2012, and June 30, 2011, total deposits were \$7,285,122 and \$7,271,849, respectively. Fair value of total investment balances as of June 30, 2012, and June 30, 2011, were as follows:

| <u>Investment Type</u>    | <u>June 30, 2012</u> | <u>June 30, 2011<sup>1</sup></u> |
|---------------------------|----------------------|----------------------------------|
| Equities                  | \$1,577,344          | \$1,779,029                      |
| Equity Mutual Funds       | 1,924,457            | 1,902,101                        |
| Fixed-Income Mutual Funds | <u>2,939,037</u>     | <u>2,578,604</u>                 |
| Total Investments         | \$6,440,838          | \$6,259,734                      |

<sup>1</sup>Investments as of June 30, 2011, were restated from the prior year's report as described in Note 19.

ECB's shares of the State Investment Fund were \$1,695,491 as of June 30, 2012, and \$1,424,924 as of June 30, 2011, and are reported as cash and cash equivalents on the Balance Sheet, but are subject to the investment risk note disclosures.

*Custodial Credit Risk*—Custodial credit risk for deposits is the risk that in the event of the failure of a financial institution, deposits may not be returned. As of June 30, 2012, \$8,140,419 of ECB's bank balance of \$8,944,711 and, as of June 30, 2011, \$7,022,622 of ECB's bank balance of \$8,067,932 were not covered by the Federal Deposit Insurance Corporation (FDIC) and were exposed to custodial credit risk. WPBF and Friends do not have a policy specifically for custodial credit risk. WPRA's investment guidelines require that its deposits not exceed the FDIC covered limit in bank accounts or certificates of deposits of any single issuer.

*Credit Risk*—Credit risk is the risk that an issuer or other counterparty to a fixed-income investment will not fulfill its obligations. WPBF's investment guidelines prohibit security transactions that involve a counterparty rated below A by a nationally recognized statistical rating organization. WPRA's investment guidelines require an average of at least an Aa by Moody's or at least an AA by Standard & Poor's. Friends' investment policy requires that investments have a minimum quality rating of investment grade. The State Investment Fund's investment guidelines establish specific maximum exposure limits by security types based on the minimum credit ratings as issued by nationally recognized statistical rating organizations. As of June 30, 2012, and June 30, 2011, all WPBF, WPRA, and Friends fixed-income mutual funds and the State Investment Fund were all unrated.

*Interest Rate Risk*—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. WPBF's investment guidelines require that fixed-income investments maintain a weighted average maturity of less than ten years. WPRA's investment guidelines require that the fixed-income investments contain a duration within 20 percent of the effective duration of the benchmark index under normal conditions. Friends does not have an investment policy specifically for interest rate risk. As of June 30, 2012, the fixed-income investments for ECB had the following average maturities:

| <u>Fixed-Income Investment</u>                      | <u>Fair Value</u> | <u>Average Maturity<br/>(years)</u> |
|---|-------------------|-------------------------------------|
| Dodge and Cox Income Fund                           | \$ 920,900        | 7.2                                 |
| Vanguard Total Bond Index Fund                      | 33,135            | 7.2                                 |
| PIMCO Total Return Fund                             | 42,639            | 7.0                                 |
| Metropolitan West Total Return<br>Bond Fund         | 43,095            | 6.8                                 |
| American Century Diversified<br>Bond Fund           | 27,994            | 6.5                                 |
| Vanguard Intermediate-Term<br>Investment Grade Fund | 19,804            | 6.4                                 |
| PIMCO High Yield Fund                               | 34,053            | 4.7                                 |
| Vanguard Fixed Income Short-Term<br>Fund            | 1,534,738         | 2.9                                 |
| Vanguard Short-Term Investment<br>Grade Fund        | 13,244            | 2.9                                 |
| Templeton Global Bond Fund                          | <u>269,435</u>    | 2.8                                 |
| Total Fixed-Income Investments                      | \$2,939,037       |                                     |



As of June 30, 2011, the fixed-income investments for ECB had the following average maturities:

| <u>Fixed-Income Investment</u>                   | <u>Fair Value</u> | <u>Average Maturity (years)</u> |
|--|-------------------|---------------------------------|
| Vanguard Total Bond Index Fund                   | \$ 25,071         | 7.2                             |
| Dodge and Cox Income Fund                        | 787,080           | 7.0                             |
| Metropolitan West Total Return Bond Fund         | 27,207            | 6.9                             |
| Vanguard Intermediate-Term Investment Grade Fund | 12,858            | 6.8                             |
| American Century Diversified Bond Fund           | 17,185            | 6.4                             |
| PIMCO High Yield Fund                            | 87,933            | 6.2                             |
| PIMCO Total Return Fund                          | 27,047            | 6.1                             |
| Templeton Global Bond Fund                       | 357,372           | 3.8                             |
| Vanguard Short-Term Investment Grade Fund        | 8,604             | 3.0                             |
| Vanguard Fixed Income Short-Term Fund            | <u>1,228,247</u>  | 2.9                             |
| Total Fixed-Income Investments                   | \$2,578,604       |                                 |

The State Investment Fund investment guidelines mandate that the weighted average maturity for the entire portfolio not exceed one year. The weighted average maturity of the State Investment Fund was 75 days as of June 30, 2012, and 73 days as of June 30, 2011.

*Foreign Currency Risk*—Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. ECB had exposure to foreign currency risk in its investments in international equity securities and mutual funds and in international fixed-income mutual funds totaling \$974,448 as of June 30, 2012, and \$1,048,987 as of June 30, 2011. WPBF’s investment guidelines require that international equity mutual funds held by WPBF will not constitute more than 20 percent of the equity portion of the investment portfolio. WPRA’s investment guidelines require that international equity investments held by WPRA will not constitute more than 20 percent of the equity portion of the investment portfolio. Friends does not have an investment policy specifically for foreign currency risk.

### 3. TRANSFERS

WPBF transfers funds monthly to ECB’s Operating Fund based upon funding requirements. The transfers are reflected as interfund transfers on the Statements of Revenues, Expenses, and Changes in Fund Net Assets and totaled \$8,171,092 for FY 2011-12 and \$7,463,455 for FY 2010-11. The timing of those transfers and the expenses may result in an interfund payable and a receivable at year-end, which are reflected in the Balance Sheets.

ECB transferred \$113,700 to the State General Fund in FY 2011-12 as part of a reduction of spending authority required by 2011 Wisconsin Act 32. This transfer is reflected as transfer to State General Fund on the Statements of Revenues, Expenses, and Changes in Fund Net Assets.

#### 4. CAPITAL ASSETS

| <u>FY 2011-12</u>                           | <u>Beginning<br/>Balance</u> | <u>Increases</u>     | <u>Decreases</u>   | <u>Ending<br/>Balance</u> |
|---|------------------------------|----------------------|--------------------|---------------------------|
| Capital Assets Not Being Depreciated:       |                              |                      |                    |                           |
| Land  | <u>\$ 163,207</u>            | <u>\$ 0</u>          | <u>\$ 0</u>        | <u>\$ 163,207</u>         |
| Capital Assets Being Depreciated:           |                              |                      |                    |                           |
| Buildings and Improvements                  | 11,060,349                   | 155,539              | 0                  | 11,215,888                |
| Equipment                                   | <u>27,321,499</u>            | <u>1,248,862</u>     | <u>(406,714)</u>   | <u>28,163,647</u>         |
| Total Capital Assets at Historical Cost     | <u>38,381,848</u>            | <u>1,404,401</u>     | <u>(406,714)</u>   | <u>39,379,535</u>         |
| Less Accumulated Depreciation for:          |                              |                      |                    |                           |
| Buildings and Improvements                  | (5,077,196)                  | (408,602)            | 0                  | (5,485,798)               |
| Equipment                                   | <u>(13,495,929)</u>          | <u>(1,454,674)</u>   | <u>353,424</u>     | <u>(14,597,179)</u>       |
| Total Accumulated Depreciation              | <u>(18,573,125)</u>          | <u>(1,863,276)</u>   | <u>353,424</u>     | <u>(20,082,977)</u>       |
| Total Capital Assets Being Depreciated, Net | <u>19,808,723</u>            | <u>(458,875)</u>     | <u>(53,290)</u>    | <u>19,296,558</u>         |
| Total Capital Assets, Net                   | <u>\$19,971,930</u>          | <u>\$ (458,875)</u>  | <u>\$(53,290)</u>  | <u>\$19,459,765</u>       |
| <br>  |                              |                      |                    |                           |
| <u>FY 2010-11<sup>1</sup></u>               | <u>Beginning<br/>Balance</u> | <u>Increases</u>     | <u>Decreases</u>   | <u>Ending<br/>Balance</u> |
| Capital Assets Not Being Depreciated:       |                              |                      |                    |                           |
| Land  | <u>\$ 163,207</u>            | <u>\$ 0</u>          | <u>\$ 0</u>        | <u>\$ 163,207</u>         |
| Capital Assets Being Depreciated:           |                              |                      |                    |                           |
| Buildings and Improvements                  | 10,882,663                   | 177,686              | 0                  | 11,060,349                |
| Equipment                                   | <u>27,753,269</u>            | <u>274,346</u>       | <u>(706,116)</u>   | <u>27,321,499</u>         |
| Total Capital Assets at Historical Cost     | <u>38,635,932</u>            | <u>452,032</u>       | <u>(706,116)</u>   | <u>38,381,848</u>         |
| Less Accumulated Depreciation for:          |                              |                      |                    |                           |
| Buildings and Improvements                  | (4,661,008)                  | (416,188)            | 0                  | (5,077,196)               |
| Equipment                                   | <u>(12,614,070)</u>          | <u>(1,446,869)</u>   | <u>565,010</u>     | <u>(13,495,929)</u>       |
| Total Accumulated Depreciation              | <u>(17,275,078)</u>          | <u>(1,863,057)</u>   | <u>565,010</u>     | <u>(18,573,125)</u>       |
| Total Capital Assets Being Depreciated, Net | <u>21,360,854</u>            | <u>(1,411,025)</u>   | <u>(141,106)</u>   | <u>19,808,723</u>         |
| Total Capital Assets, Net                   | <u>\$21,524,061</u>          | <u>\$(1,411,025)</u> | <u>\$(141,106)</u> | <u>\$19,971,930</u>       |

<sup>1</sup>Capital assets were restated from the prior year's report as described in Note 19.

Depreciation expense was charged to functions as follows:

|                            | <u>FY 2011-12</u> | <u>FY 2010-11<sup>1</sup></u> |
|----------------------------|-------------------|-------------------------------|
| Programming and Production | \$ 1,816          | \$ 1,834                      |
| Broadcasting               | 1,850,586         | 1,832,877                     |
| Management and General     | <u>10,874</u>     | <u>28,346</u>                 |
| Total Depreciation Expense | \$1,863,276       | \$1,863,057                   |

<sup>1</sup>Depreciation expense was restated from the prior year’s report as described in Note 19.

Federal grant funds received from the National Telecommunications and Information Administration (NTIA) to purchase equipment contain a priority lien. The lien extends for a period of ten years after the grant is closed, during which time the federal government retains priority reversionary interest in the equipment. ECB was awarded six NTIA capital equipment grants between FY 2003-04 and FY 2011-12. The book value of equipment purchased with NTIA funds is \$1,581,595 as of June 30, 2012, and \$1,756,713 as of June 30, 2011.

**5. INTANGIBLE ASSETS**

Because of the complexity of the compiled program rights information, the amount of intangible assets cannot be easily split between historical cost and accumulated amortization. Therefore, intangible assets relating to program rights are presented net of accumulated amortization. The amortization of costs for program rights is shown in the decrease column in the table below.

| <u>FY 2011-12</u> | <u>Beginning<br/>Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|-------------------|------------------------------|------------------|------------------|---------------------------|
| Intangible Assets | \$901,175                    | \$238,184        | \$(317,603)      | \$821,756                 |

| <u>FY 2010-11<sup>1</sup></u> | <u>Beginning<br/>Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|-------------------------------|------------------------------|------------------|------------------|---------------------------|
| Intangible Assets             | \$995,023                    | \$284,234        | \$(378,082)      | \$901,175                 |

<sup>1</sup>Decreases of intangible assets was restated from the prior year’s report as described in Note 19.

## 6. NONCURRENT LIABILITIES

Noncurrent liability activity for the year ended June 30, 2012, was as follows:

|                              | <u>Beginning<br/>Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|------------------------------|------------------------------|------------------|------------------|---------------------------|
| Compensated Absences         | \$291,556                    | \$47,254         | \$ (2,312)       | \$336,498                 |
| Bonds Payable                | 89,455                       | 0                | (9,191)          | 80,264                    |
| Unearned Revenue             | <u>366,467</u>               | <u>0</u>         | <u>(95,600)</u>  | <u>270,867</u>            |
| Total Noncurrent Liabilities | \$747,478                    | \$47,254         | \$(107,103)      | \$687,629                 |

Noncurrent liability activity for the year ended June 30, 2011, was as follows:

|                              | <u>Beginning<br/>Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|------------------------------|------------------------------|------------------|------------------|---------------------------|
| Compensated Absences         | \$287,842                    | \$ 43,081        | \$(39,367)       | \$291,556                 |
| Bonds Payable                | 98,426                       | 0                | (8,971)          | 89,455                    |
| Unearned Revenue             | <u>0</u>                     | <u>366,467</u>   | <u>(0)</u>       | <u>366,467</u>            |
| Total Noncurrent Liabilities | \$386,268                    | \$409,548        | \$(48,338)       | \$747,478                 |

The noncurrent liabilities from compensated absences are generally funded with operating subsidies received from the State of Wisconsin, whereas the bonds payable are funded with program revenue (Note 10). Compensated absences and bonds payable expected to be paid within one year are reflected in the current liabilities on the Balance Sheets and total \$181,826 and \$9,191, respectively, on June 30, 2012, and \$209,870 and \$8,971, respectively, on June 30, 2011.

## 7. GREEN BAY TOWER LEASE

In 2002, the Department of Administration authorized ECB to enter into a long-term contract with Young Broadcasting of Green Bay, Inc., with a contract period of 20 years, which does not provide an option for renewal. ECB executed a multi-year lease of a tower, transmission line, antenna, channel combiner, air conditioner, and transmitter building. The lease agreement required a rent prepayment in the amount of \$743,000, which was paid in September 2002 and was funded by the State of Wisconsin State Capital Improvement Fund. The lease is being accounted for as a capital lease and the leased building and equipment are being depreciated over the 20-year term of the lease. The balances of the buildings and equipment, net of accumulated depreciation, is included in the Balance Sheets and total \$377,691 as of June 30, 2012, and \$414,842 as of June 30, 2011.

In addition to the rent prepayment, ECB is required to make an annual rent payment in lieu of taxes. The contract requires an initial payment of \$10,000 and a scheduled rent increase each lease year of 3 percent compounded until the end of the lease term. ECB paid \$13,048 during FY 2011-12 and \$12,668 during FY 2010-11. The following is a schedule of future minimum obligations under this lease as of June 30, 2012:

| Fiscal Year<br><u>Ended June 30</u> | <u>Total</u>     |
|-------------------------------------|------------------|
| 2013                                | \$ 13,439        |
| 2014                                | 13,842           |
| 2015                                | 14,258           |
| 2016                                | 14,685           |
| 2017                                | 15,126           |
| 2018-2022                           | <u>82,715</u>    |
| Total                               | <u>\$154,065</u> |

**8. OPERATING LEASES**

The Department of Administration enters into several operating leases on behalf of ECB. ECB makes the payments on these leases directly to the lessors. During FY 2011-12 and FY 2010-11, ECB paid \$1,130,949 and \$1,080,135, respectively, in rent payments for building space, tower space, and broadcast interconnect equipment, which is included in operating expenses on the Statements of Revenues, Expenses, and Changes in Fund Net Assets.

**9. OPERATING LEASES AS LESSOR**

During FY 2010-11, ECB entered into a 30-year lease agreement to lease out excess capacity on Educational Broadband Service licenses it holds. The lease agreement requires monthly lease payments to increase 3 percent annually over the term of the lease. Monthly lease payments recognized in FY 2011-12 and FY 2010-11 were \$405,807 and \$101,704, respectively, which are included in operating revenues on the Statements of Revenues, Expenses, and Changes in Fund Net Assets.

In addition, ECB received a prepaid fee in FY 2010-11, which is being recognized over the first five years of the lease. If the lease agreement is terminated during its first five years because ECB does not fulfill its responsibilities under the lease, all or a portion of the prepaid fee will be refunded to the lessee. The portion of the prepaid fee earned during FY 2011-12 and FY 2010-11 was \$95,600 and \$15,933, respectively, which is included in operating revenues on the Statements of Revenues, Expenses, and Changes in Fund Net Assets. The remainder of the prepaid fee is included as unearned revenue, with the portion to be earned within one year classified as a current liability and the remaining amount to be earned beyond one year classified as a noncurrent liability on the Balance Sheets.

**10. GENERAL OBLIGATION BONDS AND NOTES**

ECB has used proceeds received from a number of State of Wisconsin general obligation bonds and general obligation commercial paper notes to finance the acquisition, construction, development, enlargement, or improvement of capital assets. The proceeds are included as capital contributions in the year the assets are purchased.

The general obligation bonds repaid by the State’s general purpose revenue (GPR) are not considered debt of ECB because their repayment is from GPR. Therefore, the debt financed through GPR appropriations is reported in the State of Wisconsin’s Comprehensive Annual Financial Report (CAFR) rather than ECB’s financial statements. The indebtedness carried by the State of Wisconsin on behalf of ECB to be repaid by GPR as of June 30, 2012, and June 30, 2011, is \$20,738,032 and \$19,985,403, respectively, in general obligation bonds, which includes general obligation refunding bonds, and \$1,602,773 and \$1,609,448, respectively, in commercial paper notes. ECB reports interest expense related to these obligations in nonoperating expenses on the Statements of Revenues, Expenses, and Changes in Fund Net Assets as it is incurred. Total interest expense of \$880,017 and \$1,095,105 and the associated capital support received from the State is included in the nonoperating section of the Statements of Revenues, Expenses, and Changes in Fund Net Assets for FY 2011-12 and FY 2010-11, respectively.

In addition to general obligations financed by GPR, five general obligation bond issues are financed through program revenues, as mandated by s. 20.225(1)(i), Wis. Stats. Because the repayment of this indebtedness is financed through ECB’s program revenues, it represents debt of ECB and, accordingly, is presented as a liability in the financial statements. The amounts provided through program revenue for indebtedness during FY 2011-12 and FY 2010-11 were \$14,018 and \$13,455, respectively, which consisted of principal payments of \$8,971 and \$8,009, respectively, and interest payments of \$5,047 and \$5,446, respectively. The principal payments are recorded as reductions of the current bonds payable, while the interest payments are included in the nonoperating expenses on the Statements of Revenues, Expenses, and Changes in Fund Net Assets. As of June 30, 2012, debt service requirements for principal and interest in future years for program revenue-funded bonds are as follows:

| Fiscal Year<br><u>Ended June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Debt Service</u> |
|-------------------------------------|------------------|-----------------|---------------------|
| 2013                                | \$ 9,191         | \$ 4,599        | \$ 13,790           |
| 2014                                | 9,782            | 4,098           | 13,880              |
| 2015                                | 10,266           | 3,566           | 13,832              |
| 2016                                | 10,777           | 3,010           | 13,787              |
| 2017                                | 11,286           | 2,471           | 13,757              |
| 2018-2021                           | <u>38,153</u>    | <u>3,960</u>    | <u>42,113</u>       |
| Total                               | \$89,455         | \$21,704        | \$111,159           |

**11. ENDOWMENT**

WPBF, WPRA, and Friends have received endowment gifts that require the preservation of the fair value of the original gifts as of the gift date. WPBF's share of the gifts is shown as restricted nonexpendable net assets to comply with provisions of the Uniform Prudent Management of Institutional Funds Act.

The management of WPBF established an endowment for the ECB television network during FY 1992-93 and an endowment for the ECB radio networks during FY 2004-05 to support the operations of the television and radio networks, as determined necessary by ECB staff, with oversight by the WPBF board. Values as of June 30, 2012, and June 30, 2011, are \$1,270,338 and \$1,234,910, respectively, for the ECB television network's endowment and \$337,673 and \$342,443, respectively, for the ECB radio networks' endowment. These balances are included in the investments and cash and cash equivalents accounts on the Balance Sheets, with the portion of the endowments budgeted for operations in the coming year classified as short-term investments. Assets in the endowments follow the investment policies disclosed in Notes 1 and 2.

**12. CAPITAL CONTRIBUTIONS**

ECB's capital contributions can come from various sources, including:

**A. State of Wisconsin Capital Improvement Fund Appropriation**

The amounts provided from the State of Wisconsin Capital Improvement Fund to finance ECB projects approved by the State Building Commission are recorded as revenue in the period disbursements are made.

**B. Grants**

Federal grant funds received from the U.S. Department of Commerce to purchase capital equipment are recorded as support when the disbursements are made. Grant funds received from the Corporation for Public Broadcasting and the Public Broadcasting Service are recorded as support when received.

**C. Donated Capital Assets**

The fair value of donated capital assets is recorded as revenue in the period of acquisition.

**13. CONTRIBUTED IN-KIND SUPPORT**

Contributed in-kind support includes donated professional services, donated general operational services, donated materials, and donated instructional services. In-kind support is reported both as revenues and as expenses and, therefore, has no effect on net assets.

Donated professional services are recorded at the fee typically charged by the professional for the same type of service. All other donated services are recorded at the cost of providing the service.

In-kind support included in the financial statements was as follows:

|                                   | <u>FY 2011-12</u> | <u>FY 2010-11</u> |
|-----------------------------------|-------------------|-------------------|
| Professional Services             | \$129,232         | \$ 98,347         |
| Operational Services              | 363,226           | 302,044           |
| Instructional Television Services | <u>127,683</u>    | <u>78,158</u>     |
| Total In-Kind Support             | \$620,141         | \$478,549         |

In addition, ECB provides and receives tower space from other entities at no cost depending upon space availability and technological considerations. ECB does not recognize contributed in-kind support for the use of tower space because the value is not easily measurable.

**14. EMPLOYEE RETIREMENT PLAN**

Permanent employees of ECB are participants in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit plan governed by ch. 40, Wis. Stats. State and local government public employees are entitled to an annual formula retirement benefit based on: 1) the employee’s final average earnings; 2) years of creditable service; and 3) a formula factor. If an employee’s contributions, matching employer’s contributions, and interest credited to the employee’s account exceed the value of the formula benefit, the retirement benefit may instead be calculated as a money purchase benefit.

The WRS is considered part of the State of Wisconsin’s financial reporting entity. The separately issued financial report that includes financial statements and required supplementary information of the WRS is available on the Department of Employee Trust Funds’ website, *www.etf.wi.gov*, or may be obtained upon request from:

Department of Employee Trust Funds  
P.O. Box 7931  
Madison, WI 53707-7931

Generally, the State’s policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior service costs of the WRS. Prior service costs are amortized over 40 years, beginning January 1, 1990. However, in December 2003 the State issued bonds and subsequently fully liquidated its prior service liability balance as of January 2003. State agencies are required to make future contributions to fund the bond payments.



Required employee and employer contributions, which are equal to specified percentages of qualified earnings based on the employee's classification, are determined annually. Effective the first day of the first pay period on or after June 29, 2011, ECB is no longer permitted to pay any portion of the employee contributions. ECB's contributions to the WRS, including employer and employee contributions, were \$336,810 for FY 2011-12 and \$474,650 for FY 2010-11. Of these amounts, \$96,772 in FY 2011-12 and \$100,721 in FY 2010-11 were used to fund payments on bonds issued to liquidate the prior service liability balance. The relative position of ECB in the WRS is not available because the WRS is a statewide, multiple-employer plan.

## 15. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In accordance with the provisions of GASB Statement Number 45, state and local governmental employers are required to display in financial reports other postemployment benefits (OPEB) expenses and related liabilities; note disclosures; and, if applicable, required supplementary information. The employees of ECB are employees of the State. ECB's financial statements do not include OPEB expenses or the related liabilities other than those actually paid, which are allocated to various functional expenses on the Statements of Revenues, Expenses, and Changes in Fund Net Assets.

*Health Insurance*—The State's Health Insurance Program, a cost-sharing, multiple-employer, defined benefit plan not held in trust, is an employer-sponsored program offering group medical coverage to eligible employees and retirees of the State created under ch. 40, Wis. Stats. The Department of Employee Trust Funds and the Group Insurance Board have program administration and oversight responsibilities under ss. 15.165(2) and 40.03(6), Wis. Stats. Under this plan, retired employees of the State contribute the same healthcare premium as active employees, creating an implicit rate subsidy for retirees. This implicit rate subsidy, which is calculated to cover pre-age 65 retirees (since at age 65 retirees are required to enroll in Medicare when eligible), is treated as an OPEB.

The State's net OPEB obligation was \$406.5 million as of June 30, 2012, and \$367.5 million as of June 30, 2011. The estimated portion of this obligation related to ECB employees was \$346,937 as of June 30, 2012, and \$337,562 as of June 30, 2011. This obligation is included in the State's CAFR but is not included in ECB's financial statements.

The State's CAFR includes financial statements, additional note disclosures, and required supplementary information for this plan. That report is publicly available at [www.doa.wi.gov](http://www.doa.wi.gov) or may be obtained upon request from:

State Controller's Office  
 Department of Administration  
 101 East Wilson Street  
 Madison, WI 53703

*Life Insurance*—The State’s Life Insurance Program, a cost-sharing, multiple-employer, defined benefit plan held in trust, provides postemployment coverage to all eligible employees. The plan is administered under s. 40.70, Wis. Stats. Beginning at age 65, retirees and terminating members continue to receive, at no cost to them, basic life insurance coverage. Retirees and terminating members under age 65 must continue to pay the employee premium to maintain coverage. The relative portion of the State’s contributions to the Life Insurance OPEB plan attributable to ECB is not readily available.

The Department of Employee Trust Funds issues a publicly available financial report that includes financial statements, additional note disclosures, and required supplementary information for the Life Insurance OPEB plan. That report is available at [www.etf.wi.gov](http://www.etf.wi.gov) or may be obtained upon request from:

Department of Employee Trust Funds  
P.O. Box 7931  
Madison, WI 53707-7931

The State’s CAFR also includes additional employer note disclosures for the plan.

## 16. RELATED ENTITIES

### A. **WHA Television and Wisconsin Public Radio—University of Wisconsin Board of Regents Stations**

WHA Television, WHA Radio, and some other Wisconsin Public Radio stations are public telecommunications entities licensed by the Federal Communications Commission to the UW Board of Regents and operated by UW-Extension. In order to achieve statewide services and economies of scale, in the mid-1980s ECB and the UW Board of Regents developed partnerships called Wisconsin Public Television and Wisconsin Public Radio to manage and operate their licenses. The partnerships are maintained through affiliation agreements outlining structural principles and functions, administrative staff allocations, stations (of both Wisconsin Public Radio and Wisconsin Public Television), and financial commitments of the partners. The directors of Wisconsin Public Television and Wisconsin Public Radio are jointly appointed by ECB and the UW Board of Regents. Staff and resources from both agencies work together to provide administrative and program services. Amounts due to or from affiliated parties are separately disclosed on the Balance Sheets. The relationship pervades all aspects of the financial activities reported in the accompanying financial statements.

### B. **Friends of Wisconsin Public Television, Inc.**

Effective July 1, 2009, the Friends of WHA-TV, Inc., changed its name to Friends of Wisconsin Public Television, Inc., and assumed responsibility for the fundraising efforts of both the former Friends of WHA-TV and

the WPBF to support Wisconsin Public Television. Amended Articles of Incorporation to reflect the change in name and responsibilities were filed on July 15, 2009. The Friends solicits funds in the name of, and with the approval of, the licensees—ECB and the UW Board of Regents. Under the affiliation agreement, ECB and UW staff, along with the Friends Board of Directors, approve the Friends’ budget. The licensees have access to the Friends’ net resources and retain an ongoing, legal allocated interest in the Friends’ net assets. ECB’s and the UW Board of Regents’ allocated interests in the Friends are calculated in accordance with an affiliation agreement, which is renegotiated annually. The agreement generally provides each party with a 50 percent interest, although not all activity is allocated based on this interest.

ECB includes in the WPBF fund its allocated share of the Friends’ assets, liabilities, revenues, and expenses. A summary of amounts related to the Friends included in the accompanying financial statements follows:

|                      | <u>June 30, 2012</u> | <u>June 30, 2011</u> |
|----------------------|----------------------|----------------------|
| Cash and Investments | \$255,859            | \$200,449            |
| Other Assets         | <u>262,638</u>       | <u>422,716</u>       |
| Total Assets         | 518,497              | 623,165              |
| Total Liabilities    | <u>(177,468)</u>     | <u>(362,825)</u>     |
| Net Assets           | <u>\$341,029</u>     | <u>\$260,340</u>     |

|                                 | <u>Fiscal Year Ended<br/>June 30, 2012</u> | <u>Fiscal Year Ended<br/>June 30, 2011</u> |
|---------------------------------|--|--|
| Contributed Support and Revenue | \$3,252,063                                | \$3,337,919                                |
| Expenses:                       |  |  |
| Programming and Production      | \$ 336,088                                 | \$ 426,243                                 |
| Program Information             | 97,100                                     | 94,333                                     |
| Management and General          | 56,737                                     | 39,040                                     |
| Fundraising                     | <u>1,296,445</u>                           | <u>1,146,075</u>                           |
| Total Expenses                  | \$1,786,370                                | \$1,705,691                                |

The Friends issues separate financial statements, which are audited by other auditors. A summary of significant Friends financial data follows. Copies of the Friends’ separately issued financial statements may be obtained by contacting: the Financial Manager of the Friends of Wisconsin Public Television, Inc., at 821 University Avenue, Madison, WI 53706.

|                      | <u>June 30, 2012</u> | <u>June 30, 2011</u> |
|----------------------|----------------------|----------------------|
| Cash and Investments | \$3,409,937          | \$3,437,573          |
| Other Assets         | <u>292,017</u>       | <u>281,299</u>       |
| Total Assets         | 3,701,954            | 3,718,872            |
| Total Liabilities    | <u>(856,464)</u>     | <u>(910,140)</u>     |
| Net Assets           | <u>\$2,845,490</u>   | <u>\$2,808,732</u>   |

|                                 | <u>Fiscal Year Ended<br/>June 30, 2012</u> | <u>Fiscal Year Ended<br/>June 30, 2011</u> |
|---------------------------------|--|--|
| Contributed Support and Revenue | \$6,782,160                                | \$7,857,477                                |
| Expenses:                       |  |  |
| Programming and Production      | \$ 785,785                                 | \$1,009,326                                |
| Program Information             | 195,421                                    | 188,665                                    |
| Management and general          | 90,197                                     | 78,081                                     |
| Fundraising                     | 2,610,106                                  | 2,643,403                                  |
| Payments to ECB and WHA         | <u>3,063,893</u>                           | <u>2,778,422</u>                           |
| Total Expenses                  | <u>6,745,402</u>                           | <u>6,697,897</u>                           |
| Net Change in Assets            | <u>\$ 36,758</u>                           | <u>\$1,159,580</u>                         |

**C. Wisconsin Public Radio Association, Inc.**

WPRA is a publicly supported, non-profit corporation whose purpose is to administer various fundraising and membership duties of Wisconsin Public Radio and to provide support to the ECB radio networks and radio stations licensed to the UW Board of Regents affiliated with Wisconsin Public Radio. WPRA solicits funds in the name of, and with the approval of, the licensees—ECB and the UW Board of Regents. Under the affiliation agreement, ECB and UW staff, along with the WPRA Board of Directors, approve the WPRA’s budget. The licensees have access to the WPRA’s net resources and retain an ongoing, legal allocated interest in the WPRA’s net assets. ECB’s and the UW Board of Regents’ allocated interests in WPRA are calculated in accordance with an affiliation agreement which currently provides ECB with 76 percent of WPRA net resources and the UW Board of Regents with 24 percent. This agreement is renegotiated annually.

ECB includes in the WPBF fund its allocated share of WPRA assets, liabilities, revenues, and expenses. A summary of amounts related to WPRA included in the accompanying financial statements follows:

|                      | <u>June 30, 2012</u> | <u>June 30, 2011</u> |
|----------------------|----------------------|----------------------|
| Cash and Investments | \$ 900,199           | \$ 940,583           |
| Other Assets         | <u>105,719</u>       | <u>128,183</u>       |
| Total Assets         | 1,005,918            | 1,068,766            |
| Total Liabilities    | <u>(46,219)</u>      | <u>(64,436)</u>      |
| Net Assets           | \$ 959,699           | \$1,004,330          |

|                                 | Fiscal Year Ended<br>June 30, 2012 | Fiscal Year Ended<br>June 30, 2011 |
|---------------------------------|------------------------------------|------------------------------------|
| Contributed Support and Revenue | \$5,297,977                        | \$5,081,978                        |
| Expenses:                       |                                    |                                    |
| Broadcasting                    | \$ 9,988                           | \$ 46,540                          |
| Programming and Production      | 106,423                            | 74,674                             |
| Program Information             | 25,384                             | 28,907                             |
| Management and General          | 101,335                            | 97,403                             |
| Fundraising                     | <u>606,945</u>                     | <u>670,715</u>                     |
| Total Expenses                  | \$ 850,075                         | \$ 918,239                         |

WPRA issues separate financial statements, which are audited by other auditors. A summary of significant WPRA financial data follows. Copies of WPRA's separately issued financial statements may be obtained by contacting the Financial Manager of the Wisconsin Public Radio Association, Inc., at 821 University Avenue, Madison, WI 53706.

|                      | <u>June 30, 2012</u> | <u>June 30, 2011</u> |
|----------------------|----------------------|----------------------|
| Cash and Investments | \$1,896,864          | \$2,297,705          |
| Other Assets         | <u>554,578</u>       | <u>381,527</u>       |
| Total Assets         | 2,451,442            | 2,679,232            |
| Total Liabilities    | <u>(571,449)</u>     | <u>(730,052)</u>     |
| Net Assets           | <u>\$1,879,993</u>   | <u>\$1,949,180</u>   |

|                                 | Fiscal Year Ended<br>June 30, 2012 | Fiscal Year Ended<br>June 30, 2011 |
|---------------------------------|------------------------------------|------------------------------------|
| Contributed Support and Revenue | \$6,976,666                        | \$6,734,086                        |
| Expenses:                       |                                    |                                    |
| Broadcasting                    | \$ 13,142                          | \$ 61,237                          |
| Programming and Production      | 156,137                            | 128,224                            |
| Program Information             | 33,400                             | 38,036                             |
| Management and General          | 133,335                            | 128,162                            |
| Fundraising                     | 798,612                            | 882,519                            |
| Payments to ECB and WHA         | <u>5,911,227</u>                   | <u>5,455,742</u>                   |
| Total Expenses                  | <u>7,045,853</u>                   | <u>6,693,920</u>                   |
| Net Change in Assets            | <u>\$ (69,187)</u>                 | <u>\$ 40,166</u>                   |

**D. Rib Mountain Communications**

ECB entered into a joint ownership agreement on November 1, 2001, to erect, operate, and maintain a broadcast tower in Wausau, Wisconsin. The agreement is between ECB; WRIG, Inc.; QNI; and Gray MidAmerica Television, Inc. The shares of ownership are 33 percent, 23 percent, 20 percent, and 24 percent, respectively. Each party contributes a share of the operating costs on an annual basis. An annual budget is prepared for the joint ownership to determine respective amounts of maintenance due from each party. ECB's share of activity for the joint ownership is incorporated into its financial statements.

**17. WERN, WHAD, AND WISCONSIN TELEVISION ALLOCATION**

ECB has three networks that qualify for Community Service Grant assistance from the Corporation for Public Broadcasting, including WERN-FM and its affiliated Music Network stations, WHAD-FM and affiliated Ideas Network stations, and the Wisconsin Television Network stations. The stations are licensed to ECB, and the stations' financial activities are included as part of ECB's financial statements. The following tables summarize the portions of the Statements of Revenues, Expenses, and Changes in Fund Net Assets attributable to each network for FY 2011-12 and FY 2010-11. Direct revenues and expenses are allocated based on actual amounts. The remaining revenues and expenses are allocated to the networks based on reasonable estimates.

As part of the process to consolidate and report its financial activity into one set of financial statements beginning in FY 2010-11, ECB reassessed and changed the methodologies for allocating revenues and expenses among the three networks. In FY 2011-12, ECB reassessed and changed the methodology for allocating contributed support revenue and certain other accounts between WERN-FM and WHAD-FM. Prior to FY 2011-12, ECB used data provided by a subset of donors to extrapolate and allocate these accounts between the two radio networks. Beginning in FY 2011-12, ECB applied audience size data provided by Arbitron, Inc., and Radio Research Consortium, Inc., to allocate contributed support revenue and certain other accounts between the two radio networks.

| <u>FY 2011-12</u>  | <u>WERN-FM<br/>and Affiliates</u> | <u>WHAD-FM<br/>and Affiliates</u> | <u>Wisconsin<br/>Television<br/>Network</u> | <u>ECB Total</u>    |
|--|-----------------------------------|-----------------------------------|---|---------------------|
| <b>Operating Revenues</b>                                |                                   |                                   |   |                     |
| Contributed Support Corporation for Public Broadcasting  | \$1,920,327                       | \$2,454,991                       | \$2,303,593                                 | \$ 6,678,911        |
| Grants   | 432,185                           | 318,121                           | 1,122,173                                   | 1,872,479           |
| Underwriting Grants                                      | 486,730                           | 273,937                           | 114,966                                     | 875,633             |
| Major Gifts  | 359,123                           | 459,112                           | 364,340                                     | 1,182,575           |
| Contributed In-Kind Support                              | 365,754                           | 51,754                            | 202,633                                     | 620,141             |
| Other Income   | <u>231,164</u>                    | <u>281,362</u>                    | <u>1,812,503</u>                            | <u>2,325,029</u>    |
| Total Operating Revenues                                 | <u>3,795,283</u>                  | <u>3,839,277</u>                  | <u>5,920,208</u>                            | <u>13,554,768</u>   |
| <b>Operating Expenses</b>                                |                                   |                                   |   |                     |
| Program Services:  |                                   |                                   |   |                     |
| Programming and Production                               | 2,538,338                         | 2,652,298                         | 3,360,169                                   | 8,550,805           |
| Broadcasting   | 657,385                           | 1,999,481                         | 4,301,204                                   | 6,958,070           |
| Program Information                                      | <u>23,856</u>                     | <u>30,497</u>                     | <u>230,561</u>                              | <u>284,914</u>      |
| Total Program Services                                   | <u>3,219,579</u>                  | <u>4,682,276</u>                  | <u>7,891,934</u>                            | <u>15,793,789</u>   |
| Support Services:  |                                   |                                   |   |                     |
| Management and General                                   | 363,324                           | 522,841                           | 827,058                                     | 1,713,223           |
| Fundraising and Membership                               |                                   |                                   |   |                     |
| Development  | 294,389                           | 376,353                           | 1,330,596                                   | 2,001,338           |
| Underwriting   | <u>2,122</u>                      | <u>1,195</u>                      | <u>181,003</u>                              | <u>184,320</u>      |
| Total Support Services                                   | <u>659,835</u>                    | <u>900,389</u>                    | <u>2,338,657</u>                            | <u>3,898,881</u>    |
| Total Operating Expenses                                 | <u>3,879,414</u>                  | <u>5,582,665</u>                  | <u>10,230,591</u>                           | <u>19,692,670</u>   |
| Operating Income (Loss)                                  | <u>(84,131)</u>                   | <u>(1,743,388)</u>                | <u>(4,310,383)</u>                          | <u>(6,137,902)</u>  |
| <b>Nonoperating Revenues (Expenses)</b>                  |                                   |                                   |   |                     |
| State General Fund Revenue                               | 904,973                           | 1,302,300                         | 3,345,341                                   | 5,552,614           |
| Loss on Disposal of Capital Assets                       | (7,665)                           | (23,315)                          | (22,310)                                    | (53,290)            |
| State Insurance Funds                                    | 350                               | 1,064                             | 1,415                                       | 2,829               |
| Capital Debt Interest Expense                            | (96,485)                          | (293,466)                         | (495,113)                                   | (885,064)           |
| Investment Income  | (9,582)                           | (9,583)                           | (30,374)                                    | (49,539)            |
| Settlement Proceeds                                      | <u>0</u>                          | <u>31,120</u>                     | <u>0</u>                                    | <u>31,120</u>       |
| Total Nonoperating Revenues (Expenses)                   | <u>791,591</u>                    | <u>1,008,120</u>                  | <u>2,798,959</u>                            | <u>4,598,670</u>    |
| Income (Loss) Before Capital Contributions and Transfers | 707,460                           | (735,268)                         | (1,511,424)                                 | (1,539,232)         |
| Capital Contributions                                    | 666,131                           | 332,033                           | 538,159                                     | 1,536,323           |
| Transfer to State General Fund                           | <u>(53,425)</u>                   | <u>(53,425)</u>                   | <u>(6,850)</u>                              | <u>(113,700)</u>    |
| <b>Change in Net Assets</b>                              | <u>\$1,320,166</u>                | <u>\$ (456,660)</u>               | <u>\$ (980,115)</u>                         | <u>\$ (116,609)</u> |

| <u>FY 2010-11<sup>1</sup></u>                           | <u>WERN-FM<br/>and Affiliates</u> | <u>WHAD-FM<br/>and Affiliates</u> | <u>Wisconsin<br/>Television<br/>Network</u> | <u>ECB Total</u>   |
|---|-----------------------------------|-----------------------------------|---|--------------------|
| <b>Operating Revenues</b>                               |                                   |                                   |   |                    |
| Contributed Support Corporation for Public Broadcasting | \$2,458,632                       | \$1,892,930                       | \$2,344,950                                 | \$ 6,696,512       |
| Grants  | 400,580                           | 269,384                           | 1,190,666                                   | 1,860,630          |
| Underwriting Grants                                     | 453,306                           | 291,428                           | 158,824                                     | 903,558            |
| Major Gifts   | 366,148                           | 254,954                           | 496,395                                     | 1,117,497          |
| Contributed In-Kind Support                             | 326,631                           | 24,587                            | 127,331                                     | 478,549            |
| Other Income  | <u>274,818</u>                    | <u>274,819</u>                    | <u>1,279,801</u>                            | <u>1,829,438</u>   |
| Total Operating Revenues                                | <u>4,280,115</u>                  | <u>3,008,102</u>                  | <u>5,597,967</u>                            | <u>12,886,184</u>  |
| <b>Operating Expenses</b>                               |                                   |                                   |   |                    |
| Program Services:                                       |                                   |                                   |   |                    |
| Programming and Production                              | 2,270,416                         | 2,393,889                         | 3,463,306                                   | 8,127,611          |
| Broadcasting  | 713,298                           | 2,206,464                         | 4,212,067                                   | 7,131,829          |
| Program Information                                     | <u>16,332</u>                     | <u>12,575</u>                     | <u>97,402</u>                               | <u>126,309</u>     |
| Total Program Services                                  | <u>3,000,046</u>                  | <u>4,612,928</u>                  | <u>7,772,775</u>                            | <u>15,385,749</u>  |
| Support Services:                                       |                                   |                                   |   |                    |
| Management and General                                  | 371,786                           | 517,406                           | 838,122                                     | 1,727,314          |
| Fundraising and Membership                              |                                   |                                   |   |                    |
| Development   | 415,194                           | 315,702                           | 1,144,556                                   | 1,875,452          |
| Underwriting  | <u>5,022</u>                      | <u>3,229</u>                      | <u>175,483</u>                              | <u>183,734</u>     |
| Total Support Services                                  | <u>792,002</u>                    | <u>836,337</u>                    | <u>2,158,161</u>                            | <u>3,786,500</u>   |
| Total Operating Expenses                                | <u>3,792,048</u>                  | <u>5,449,265</u>                  | <u>9,930,936</u>                            | <u>19,172,249</u>  |
| Operating Income (Loss)                                 | <u>488,067</u>                    | <u>(2,441,163)</u>                | <u>(4,332,969)</u>                          | <u>(6,286,065)</u> |
| <b>Nonoperating Revenues (Expenses)</b>                 |                                   |                                   |   |                    |
| State General Fund Revenue                              | 988,044                           | 1,375,035                         | 3,556,882                                   | 5,919,961          |
| Loss on Disposal of Capital Assets                      | (5,151)                           | (15,935)                          | (120,020)                                   | (141,106)          |
| State Insurance Funds                                   | 472                               | 1,458                             | 1,929                                       | 3,859              |
| Capital Debt Interest Expense                           | (114,289)                         | (353,532)                         | (632,730)                                   | (1,100,551)        |
| Investment Income                                       | 242,558                           | 242,558                           | 590,149                                     | 1,075,265          |
| Settlement Proceeds                                     | <u>0</u>                          | <u>42,201</u>                     | <u>0</u>                                    | <u>42,201</u>      |
| Total Nonoperating Revenues (Expenses)                  | <u>1,111,634</u>                  | <u>1,291,785</u>                  | <u>3,396,210</u>                            | <u>5,799,629</u>   |
| Income (Loss) Before Capital Contributions              | 1,599,701                         | (1,149,378)                       | (936,759)                                   | (486,436)          |
| Capital Contributions                                   | <u>226,862</u>                    | <u>300,432</u>                    | <u>53,084</u>                               | <u>580,378</u>     |
| <b>Change in Net Assets</b>                             | <u>\$1,826,563</u>                | <u>\$ (848,946)</u>               | <u>\$ (883,675)</u>                         | <u>\$ 93,942</u>   |

<sup>1</sup>Amounts were restated from the prior year's report as described in Note 19.



**18. ALLSTATE TOWER, INC., SETTLEMENT AGREEMENT**

A settlement agreement was finalized in April 2011 in which Allstate Tower, Inc., agreed to pay ECB \$120,000 for the full settlement of claims that Allstate failed to provide contractually required goods and performed services negligently. The remaining outstanding balance of the settlement was \$46,679 as of June 30, 2012, and \$77,799 as of June 30, 2011.

**19. RESTATEMENT OF FY 2010-11 FINANCIAL STATEMENTS**

The FY 2010-11 financial statements have been restated to be consistent with several reclassifications that occurred in FY 2011-12. These reclassifications did not affect the net asset balance.

- ECB reclassified a 20-year lease with Young Broadcasting of Green Bay, Inc., as described in Note 7, from an operating lease, with an upfront payment recorded as a prepaid expense, to a capital lease. As part of the reclassification, current and noncurrent prepaid expenses were decreased by \$37,150 and \$377,691, respectively, buildings were increased by \$158,008, and equipment was increased by \$256,833 on the Balance Sheet as of June 30, 2011.
- WPRA reclassified certificates of deposit from short-term investments to cash on its Balance Sheet. As a result, WPBF's share of WPRA's certificate of deposits, which totaled \$746,033 as of June 30, 2011, was reclassified from current investments to cash and cash equivalents on the Balance Sheet.
- Friends changed its definition of major gifts, which resulted in certain contributions being reported as contributed support rather than as major gifts. As a result, contributed support on the FY 2010-11 Statement of Revenues, Expenses, and Changes in Fund Net Assets was increased by \$208,163, and major gifts was decreased by a similar amount.
- WPBF reclassified the expense category for a portion of its share of Friends' expenses. As a result, \$292,113 of fundraising and membership development expenses were reclassified to programming and production expenses on the FY 2010-11 Statement of Revenues, Expenses, and Changes in Fund Net Assets.
- ECB reclassified its purchases and amortization of intangible assets as a cash flow from capital and related financing activities rather than as a cash flow from operating activities, which resulted in various changes in amounts on the FY 2010-11 Statement of Cash Flows.

- ECB combined several of its accounts in FY 2011-12, and for consistency purposes, restated its financial statements for FY 2010-11 to reflect these changes.

The FY 2010-11 financial statements were also restated to correct an expense transaction that was incorrectly included as a prepaid expense on the Balance Sheet. The effect of this restatement decreased current prepaid expenses and the ending net asset balance as of June 30, 2011, by \$46,161, and increased FY 2010-11 broadcasting expenses by a similar amount.

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# Report on Internal Control and Compliance ■

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## *Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*

We have audited the financial statements of the Wisconsin Educational Communications Board's (ECB's) Operating Fund and the Wisconsin Public Broadcasting Foundation, Inc., as of and for the years ended June 30, 2012, and June 30, 2011, and have issued our report thereon dated December 14, 2012. Our report includes a reference to other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Wisconsin Public Radio Association, Inc., and the Friends of Wisconsin Public Television, Inc., as described in our opinion on ECB's financial statements. While the financial statements of the Wisconsin Public Radio Association, Inc., and the Friends of Wisconsin Public Television, Inc., were audited in accordance with auditing standards generally accepted in the United States of America, they were not audited in accordance with *Government Auditing Standards*.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of ECB is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audits, we considered ECB's internal control as a basis for

designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ECB's internal control. Accordingly, we do not express an opinion on the effectiveness of ECB's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of ECB's financial statements will not be prevented or will not be detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined in the preceding paragraph. However, as discussed in the following paragraphs, we identified two deficiencies that we consider to be significant deficiencies. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### *Need for Continued Improvements in Financial Reporting*

ECB has taken significant steps to improve its financial reporting process, including combining its television and radio operations into one set of financial statements beginning with its fiscal year (FY) 2010-11 financial report. In addition, ECB is taking steps to acquire and implement a new accounting system, which could help simplify its financial reporting process. We acknowledge the progress ECB has made. However, ECB's financial reporting process remains complex and involves many manual procedures, which increase the risk of misstatements in financial reporting.

As discussed in report 11-14, we identified several accounting issues and misstatements during our audit of ECB's FY 2010-11 financial statements. During our audit of ECB's FY 2011-12 financial statements, we again noted several misstatements that required adjustments to the financial statements and note disclosures. The most significant misstatements included the following:

- ECB incorrectly recorded certain accruals related to vendor payments. The net effects of the corrections were to decrease the net assets balance as of June 30, 2011, by \$46,161 and to increase the net assets balance as of June 30, 2012, by \$34,997.
- ECB made various misclassifications of grant activity, including misclassifying \$58,818 as in-kind support rather than capital contributions, misclassifying \$72,758 as other income rather than

capital contributions, and misclassifying \$77,392 as unrestricted net assets rather than restricted net assets. The corrections had no effect on the total net assets balance.

- ECB incorrectly omitted the amount of amortization expense for intangible assets additions on the Statements of Cash Flows in the amount of \$72,742 for FY 2011-12 and \$74,415 for FY 2010-11.
- ECB made several changes to improve its classification of certain financial activity for FY 2011-12 from prior years. However, several accounts in the FY 2010-11 financial statements had not been restated to reflect these changes for comparative purposes. The most significant item was that programming and production expenses of \$292,113 were not reclassified as fundraising and membership development expenses on the FY 2010-11 Statement of Revenues, Expenses, and Changes in Fund Net Assets. The corrections had no effect on the total net assets balance.
- After we raised concerns with ECB's application of its methodology for allocating revenues and expenses between WHAD-FM and WERN-FM in the note disclosures (Note 17), ECB developed a new methodology that provided a more reasonable representation of the allocation of activities between the two radio networks. We also identified two additional concerns in ECB's allocation of revenues and expenses between WHAD-FM, WERN-FM, and the Wisconsin Television Network, which also resulted in audit adjustments. The net effects of the corrections resulted in decreasing the change in net assets for WHAD-FM by \$488,160, increasing the change in net assets for WERN-FM by \$438,350, and increasing the change in net assets for the Wisconsin Television Network by \$49,810.
- ECB incorrectly disclosed certain amounts in its notes to the financial statements, including overstating the current portion of compensated absences disclosed in the noncurrent liabilities note (Note 6) by \$336,498 and overstating the total bank balance disclosed in the deposits and investments note (Note 2) by \$369,245. Additionally, ECB understated programming and production expenses by \$113,610 for FY 2011-12 and \$156,839 for FY 2010-11 and overstated payments to ECB and WHA by similar amounts in its related entities note disclosure (Note 16B) for the Friends of Wisconsin Public Television, Inc.

ECB corrected the financial statements and note disclosures for these errors. We recommend ECB take additional steps to prevent or detect misstatements in its financial statements and note disclosures. Further, we recommend ECB continue to simplify its financial statement compilation processes, especially as it implements a new accounting system.

In its response, ECB indicates that it has implemented a series of changes to streamline and improve its financial reporting processes. However, it notes that compiling the financial statements is a labor-intensive process and involves many complex datasets gathered from a variety of sources. It also needs to track a number of “off-system” transactions to establish accruals for the financial statements, which creates a greater potential for misclassifications and errors. ECB believes that the misclassifications and errors noted were off-system transactions and that its financial statements were not materially misstated.

ECB also notes that it has taken several steps toward implementing a new accounting system. ECB believes that the new accounting system will allow it to record many of the current off-system entries directly on its system. ECB is also working to procure consulting services that will assist with the implementation of the accounting system and related processes, including financial reporting processes.

#### *Programmer Access and Program Change Controls over the Invoice System*

ECB relies on information from several information technology systems in its financial reporting process, including its internally developed invoice system. To reduce the risk of inappropriate transactions, changes to ECB’s critical financial systems should go through a systematic, controlled process that ensures that all changes are authorized, documented, and tested by information technology staff and users, and comply with industry standards. However, as we have reported in prior audits, we found ECB’s programmer has the ability to independently make changes to the invoicing system without detection by others. Further, ECB’s programmer has the ability to modify the invoice system data and, therefore, could make erroneous or unauthorized changes to data.

ECB is in the process of acquiring a new accounting system, which would replace the invoice system and eliminate the programmer access and program change control concerns. In the interim, we suggest that ECB consider completing a management review of program change requests to ensure only authorized program changes are made to the invoice system. However, ECB concludes that its current compensating controls will help detect any significant changes to data and that the risk level is acceptable until the new accounting software is placed into operation. We accept ECB’s assessment and make no further recommendations at this time.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether ECB’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed


no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

ECB's written responses to the findings are summarized in the preceding narrative. We did not audit ECB's responses and, accordingly, express no opinion on them.

We identified certain additional matters pertaining to the development and documentation of procedures related to the financial reporting process, which were included in a separate communication dated December 7, 2012.

This independent auditor's report is intended for the information and use of ECB, the Wisconsin Public Broadcasting Foundation, Inc., the Wisconsin Legislature, and the Corporation for Public Broadcasting. This report is a matter of public record and its distribution is not limited. However, because we do not express an opinion on the effectiveness of ECB's internal control or on compliance, this report is not intended to be used by anyone other than these specified parties.

December 14, 2012

LEGISLATIVE AUDIT BUREAU  
by   
Diann Allsen  
Audit Director